Andreas Barckow
Chair, International Accounting Standards Board (IASB)
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

25 March 2024

Dear Mr Barckow,

Exposure Draft on Financial Instruments with Characteristics of Equity
Proposed Amendments to IAS 32, IFRS 7 and IAS 1

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the Exposure Draft (ED) on Financial Instruments with Characteristics of Equity – Proposed Amendments to IAS 32, IFRS 7 and IAS 1.

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors, and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society. AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia. AFME is registered on the EU Transparency Register, registration number 65110063986-76.

Overall, we support the IASB efforts to amend IAS 32 to provide additional guidance on the classification of financial instruments between financial liabilities and equity instruments. Our members consider that the amendments bring the much-desired clarifications to existing practice which will in turn drive greater consistency in the application of IAS 32 - Financial Instruments – Presentation and related standards.

There are, however, certain areas where the ED will benefit from additional guidance and clarification before the final standard is issued. The key areas are outlined below:

- Effect of laws and regulations on the classification of financial instruments (components of financial instruments).

- Implication of discretionary payments for instruments classified as financial liabilities under current IAS 32 and related implications for hedge accounting.

Association for Financial Markets in Europe
London Office: Level 10, 20 Churchill Place, London E14 5HJ, United Kingdom T: +44 (0)20 3828 2700
Brussels Office: Rue de la Loi 82, 1040 Brussels, Belgium T: +32 (0)2 883 5540
Frankfurt Office: Neue Mainzer Straße 75, 60311 Frankfurt am Main, Germany T:+ 49 (0)69 710 456 660
www.afme.eu

Company Registration No: 6996678 Registered Office: Level 10, 20 Churchill Place, London E14 5HJ
AFME is registered on the EU Transparency Register, registration number 65110063986-76

- Put-Options on non-controlling interests and interaction with business combinations.

- Obligations to purchase own equity instruments most notably the assessment of the passage of time related features in the context of the fixed-for-fixed requirement.

- Measurement basis for financial liabilities arising from obligations to purchase own equity instruments, most notably the inability to estimate the expected point of redemption.

- Reclassification between equity and financial liabilities.

- Transition relying on fully retrospective application, most notably its complexity and potential unintended consequences.

- The extent of the disclosure requirements.

Our detailed responses to the questions set out in the Exposure Draft are included in the Appendix to this letter.

We trust that our comments are helpful, and we look forward to engaging further with the IASB on the Exposure Draft.

Yours sincerely,

Ian Sandles
Director, Tax and Accounting
ian.sandles@afme.eu
Tel: +44 20 3828 2708

Louise Rodger
Managing Director, Compliance
louise.rodger@afme.eu
Tel: +44 20 3828 2742

APPENDIX

EXPOSURE DRAFT (ED) ON FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF EQUITY (FICE)

PROPOSED AMENDMENTS TO IAS 32, IFRS 7 AND IAS 1

Question 1—The effects of relevant laws or regulations (paragraphs 15A and AG24A–AG24B of IAS 32)

The IASB proposes to clarify that:

> **(a) only contractual rights and obligations that are enforceable by laws or regulations and are in addition to those created by relevant laws or regulations are considered in classifying a financial instrument or its component parts (paragraph 15A); and**
>
> **(b) a contractual right or obligation that is not solely created by laws or regulations but is in addition to a right or obligation created by relevant laws or regulations shall be considered in its entirety in classifying the financial instrument or its component parts (paragraph AG24B).**

Paragraphs BC12–BC30 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Our members acknowledge the efforts of the IASB in addressing the questions from stakeholders on whether and how laws or regulations (such as statutory or regulatory requirements) applicable to a financial instrument affect its classification.

Our members also acknowledge that the ED does not follow an "an all-inclusive" classification approach as described in BC14 of the ED. We understand the rationale for this as this would have been a significant departure from the requirements in IAS 32.

However, some of our members noted that certain areas would benefit from additional application guidance to mitigate the risk of diversity in practice. More specifically these members are concerned on how the proposed second requirement in paragraph 15A(a) of the ED is intended to be interpreted and applied in practice. It is unclear what the IASB's intent with the wording "in addition to" is. It seems that the IASB's intention is that the requirements arising from laws or regulations are a matter of fact because their outcome is pre-determined and should therefore not be subject to further consideration. Nevertheless, the staff papers and the Basis for Conclusions seem to indicate otherwise in the context of Additional Tier 1 capital instruments (AT1) issued by banks to meet regulatory capital requirements.

Paragraph BC13 notes that AT1s are perpetual instruments with obligations that arise only on liquidation of the issuer. They are also required by the law to include a specific loss-absorption feature as well as the general bail-in powers of a prudential regulator. The Staff Papers concluded that only the specific loss-absorption feature would meet the proposed requirements and therefore be considered in the classification of the underlying instrument. Some of our members noted that there is another feature that is required by the law, i.e., that any coupon payments on the instruments are to be at the discretion of the issuer. This has not been specifically addressed by the Board.

As a result, these members are concerned that that two possible interpretations of paragraph 15 a) may arise as follows:

1. The discretionary payments do not meet the proposed requirements to be considered as a classification element because they are not subject to negotiation between the parties to the contract (not "in addition to") and, therefore, cannot be modified by mutual agreement (in line with paragraph BC20). This interpretation means that an AT1, where the specific loss absorption feature involves an exchange of a variable number of shares is required to be classified as a financial liability in its entirety. This is opposite to the outcome resulting from applying the proposed requirements for contingent settlement provisions. In this instance the instrument would be a compound financial instrument with discretionary coupon payments being classified as the equity component.
2. The coupon on the instrument is subject to negotiation and agreement between the parties to the contract and hence in addition to laws or regulations. Therefore, the discretionary coupon payments are required to be accounted for as an equity component as the feature (discretionary coupon) is linked to the agreed coupon. This is in line to the outcome if the instrument were to be assessed under the proposed guidance for contingent settlement provisions.

These two potential interpretations highlight that the sequencing of application of the proposed requirements matters and may lead to inconsistent outcomes. This should therefore be considered by the IASB for additional guidance before finalising the Exposure Draft.

In addition, in certain jurisdictions including France there are regulated products where certain rights and obligations are set out in law or regulation (e.g. a regulated deposit where the obligation to pay interest and the interest rate are specified in law or regulation). The ED has raised questions over whether these rights and obligations should be ignored when determining the classification. We consider these rights and obligations need to be taken into account to have a relevant accounting classification.

Question 2—Settlement in an entity's own equity instruments (paragraphs 16, 22, 22B–22D, AG27A and AG29B of IAS 32)

The IASB proposes to clarify when the fixed-for-fixed condition in paragraph 16(b)(ii) of IAS 32 is met by specifying that the amount of consideration to be exchanged for each of an entity's own equity instruments is required to be denominated in the entity's functional currency, and either:

> **(a) fixed (will not vary under any circumstances); or**
>
> **(b) variable solely because of:**
>
>> **(i) preservation adjustments that require the entity to preserve the relative economic interests of future shareholders to an equal or lesser extent than those of current shareholders; and/or**
>>
>> **(ii) passage-of-time adjustments that are predetermined, vary with the passage of time only, and have the effect of fixing on initial recognition the present value of the amount of consideration exchanged for each of the entity's own equity instruments (paragraphs 22B–22C).**

The IASB also proposes to clarify that if a derivative gives one party a choice of settlement between two or more classes of an entity's own equity instruments, the entity considers whether the fixed-for-fixed condition is met for each class of its own equity instruments that may be delivered on settlement. Such a derivative is an equity instrument only if all the settlement alternatives meet the fixed-for-fixed condition (paragraph AG27A(b)).

The IASB further proposes to clarify that a contract that will or may be settled by the exchange of a fixed number of one class of an entity's own non-derivative equity instruments for a fixed number of another class of its own non-derivative equity instruments is an equity instrument (paragraph 22D).

Paragraphs BC31–BC61 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Our members consider that the proposed amendments clarify existing practice and will contribute to higher degree of consistency in application of the requirements in IAS 32.

However, the requirements for passage of time would benefit from further consideration and additional guidance. This is because while Preservation Adjustments are generally well understood, the proposed requirements for assessing whether adjustments which are solely attributable to Passage of Time are consistent with the definition of an equity instrument are complex and will require significant judgment, most notably:

- determining the discount rate that not only reflects the risk of the instrument but that is also proportional to the passage of time.
- ascertaining whether the consideration pre- and post- adjustments remains in line with the fixed-for-fixed requirement irrespective of the way the adjustments are applied in accordance with the relevant terms and conditions.
- consideration of circumstances where an adjustment to the fixed-for-fixed ratio would meet the requirements for passage of time (e.g. adjustments linked to interest rate, benchmark rate, inflation, or an unleveraged combination of both).

We therefore recommend that the staff considers including additional guidance / examples before the proposed amendments are finalised.

Question 3—Obligations to purchase an entity's own equity instruments (paragraphs 23 and AG27B–AG27D of IAS 32)

The IASB proposes to clarify that:

(a) the requirements in IAS 32 for contracts containing an obligation for an entity to purchase its own equity instruments also apply to contracts that will be settled by delivering a variable number of another class of the entity's own equity instruments (paragraph 23).

(b) on initial recognition of the obligation to redeem an entity's own equity instruments, if the entity does not yet have access to the rights and returns associated with ownership of the equity instruments to which the obligation relates, those equity instruments would continue to be recognised. The initial amount of the financial liability would, therefore, be removed from a component of equity other than non-controlling interests or issued share capital (paragraph AG27B).

(c) an entity is required to use the same approach for initial and subsequent measurement of the financial liability—measure the liability at the present value of the redemption amount and ignore the probability and estimated timing of the counterparty exercising that redemption right (paragraph 23).

(d) any gains or losses on remeasurement of the financial liability are recognised in profit or loss (paragraph 23).

(e) if a contract containing an obligation for an entity to purchase its own equity instruments expires without delivery:

(i) the carrying amount of the financial liability would be removed from financial liabilities and included in the same component of equity as that from which it was removed on initial recognition of the financial liability.

(ii) any gains or losses previously recognised from remeasuring the financial liability would not be reversed in profit or loss. However, the entity may transfer the cumulative amount of those gains or losses from retained earnings to another component of equity (paragraph AG27C).

(f) written put options and forward purchase contracts on an entity's own equity instruments that are gross physically settled—consideration is exchanged for own equity instruments—are required to be presented on a gross basis (paragraph AG27D).

Paragraphs BC62–BC93 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Our members consider that the proposed amendments clarify existing practice and will contribute to a higher degree of consistency in application of the requirements in IAS 32. There are however some areas where our members have concerns and additional guidance/further consideration by the IASB would be beneficial as follows:

Measurement Basis

The amendments propose that an entity must disregard the expected timing/likelihood of redemption for the purpose of initial recognition and subsequent measurement of financial liabilities arising from the obligation to redeem own equity instruments. The proposed amendments require the earliest possible redemption date to be considered as the actual redemption date. This raises several issues of conceptual and economic nature as follows:

- It extends the scope of IAS 32 from a classification standard to a measurement standard.
- It creates a measurement basis which is not only inconsistent with the economics of the transaction, with the way the transaction is managed but also with the existing measurement bases in IFRS 9 (i.e., fair value and amortised cost).

Interaction with proposals on laws or regulations

The proposed amendments note that for classification the effect of laws or regulations must be largely disregarded (see question 1), whilst for initial recognition and subsequent measurement of a financial liability arising from an entity's obligation to purchase its own equity, their effect must be considered. This is because laws or regulations could affect the enforceability, timing, and amount of the cash flows an entity may be required to pay. This apparent conceptual difference may be confusing and should be clarified as it seems to indicate an inconsistent approach between classification, recognition, and measurement (refer to issue on matter of fact and requirement of "in addition to" in question 1).

Put-Options on non-controlling interests and interaction with business combinations

The proposed amendments will affect the way that put options on non-controlling interests (NCI puts) are presented and measured by some of our members. This measurement requirement also has a consequential effect on the amounts of goodwill created in historical business combinations which will generate significant complexity. Our members note that there is diversity in practice when accounting for NCI puts. The ED proposes that the minority interest is, in effect, double counted as it is reflected both by the financial liability and the entry reflected in equity. We suggest that the Board considers the conceptual merits of this approach as well as the potential unintended consequences of changes to existing policy choices. If the Board decides to finalise the ED in its current form, transition relief (including grandfathering) should be considered for those entities which will see their historical policy choices affected by the provisions in the ED.

Effect on business combinations

The new measurement requirement proposed in the ED whereby the likelihood and timing of exercising an NCI put cannot be estimated has a consequential effect on the amounts of goodwill created in historical business combinations as the amounts of the liabilities associated with NCI puts will change. This will generate significant complexity particularly in the context of a transition approach relying on full retrospective application. We therefore recommend that the Board considers the consequences of this issue when finalising the transition provisions (see detailed comments in question 9).

Question 4—Contingent settlement provisions (paragraphs 11, 25, 25A, 31, 32A, AG28 and AG37 of IAS 32)

The IASB proposes to clarify that:

(a) some financial instruments with contingent settlement provisions are compound financial instruments with liability and equity components (paragraphs 25 and 32A).

(b) the initial and subsequent measurement of the financial liability (or liability component of a compound financial instrument) arising from a contingent settlement provision would not take into account the probability and estimated timing of occurrence or non-occurrence of the contingent event (paragraph 25A).

(c) payments at the issuer's discretion are recognised in equity even if the equity component of a compound financial instrument has an initial carrying amount of zero (paragraphs 32A and AG37).

(d) the term 'liquidation' refers to the process that begins after an entity has permanently ceased its operations (paragraph 11); and

(e) the assessment of whether a contractual term is 'not genuine' in accordance with paragraph 25(a) of IAS 32 requires judgement based on the specific facts and circumstances and is not based solely on the probability or likelihood of the contingent event occurring (paragraph AG28).

Paragraphs BC94–BC115 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Although the proposed amendments may contribute to a higher degree of consistency in application of the requirements in IAS 32, some of our members, most notably the ones which historically applied full liability accounting would like to highlight some areas that would benefit from further consideration and additional guidance (examples) before finalising the ED as follows:

Payments at the discretion of the issuer

Some of our members noted that in certain jurisdictions some instruments which are contingently convertible into a variable number of shares (e.g., AT1s) may have been fully classified as financial liabilities despite the coupons being discretionary. This is due to first applying the contingent settlement guidance in current IAS 32 before considering the accounting for the component parts of the instrument (compound instruments guidance). Under the proposed amendments the order of application has been clarified. This requires discretionary coupons to be classified as an equity component. Under existing practice, financial liabilities are often designated in formal fair value hedge accounting relationships where interest rate risk is hedged. The proposed amendments may require the discontinuation of those hedge designations which will result in P&L volatility and difficulty in application particularly under a full retrospective approach. See our comments on transition (question 9).

In addition, certain members consider it provides more relevant and understandable information for users if the discretionary coupon is recognised as interest in profit or loss when the entire initial recognition amount (i.e. the principal) is classified as a liability. This treatment is currently accepted and is consistent with current risk management strategies supporting hedge accounting designations. In case of mandatory presentation of coupons in equity, there will be a disconnect between presentation of coupons on derivatives in P&L (used as hedging instruments) and coupons on the AT1s themselves (hedged item).

We consider that the Board should perform a review of current diversity in accounting practice and assess the potential knock-on implications of the proposed requirements, particularly on hedge accounting. If the Board proceeds to finalise the requirements in their current form the Board should consider allowing an option to present discretionary coupons in P&L if hedge accounting is applied (similar to current requirements in IAS 39 and IFRS 9 for FVOCI instruments that are in fair value hedge accounting). In case the above suggestion is not followed, the Board should consider providing a transition relief for example by grandfathering existing hedging relationships which will allow constituents affected by this issue to continue with their existing hedge accounting relationships.

<u>Meaning of "liquidation"</u>

Our members note that liquidation has different meanings in different jurisdictions and there are specific considerations for regulated entities in relation to the meaning and timing of liquidation both of which are driven by laws and regulations (e.g. recovery and resolution for Banking entities). Our members would welcome additional guidance on a scenario where a write-down/dividend suspension (or pay-out) is required following the intervention of a regulator or administrative receivership (an alternative or mandatory stage prior to liquidation in certain jurisdictions) and whether this would fall under the proposed definition of liquidation as permanent cessation of operations may happen during the liquidation process itself.

Alternatively, if the Board does not consider that guidance is required, it may be easier to remove the definition and leave this issue to an accounting policy choice as this is often subject to specific facts and circumstances which may require application of significant judgment and lead to unintended outcomes if entities prevented from applying judgment.

Question 5—Shareholder discretion (paragraphs AG28A–AG28C of IAS 32)

The IASB proposes:

> **(a) to clarify that whether an entity has an unconditional right to avoid delivering cash or another financial asset (or otherwise to settle a financial instrument in such a way that it would be a financial liability) depends on the facts and circumstances in which shareholder discretion arises. Judgement is required to assess whether shareholder decisions are treated as entity decisions (paragraph AG28A).**
>
> **(b) to describe the factors an entity is required to consider in making that assessment, namely whether:**
>
> > **(i) a shareholder decision would be routine in nature—made in the ordinary course of the entity's business activities.**
> >
> > **(ii) a shareholder decision relates to an action that would be proposed or a transaction that would be initiated by the entity's management.**
> >
> > **(iii) different classes of shareholders would benefit differently from a shareholder decision; and**
> >
> > **(iv) the exercise of a shareholder decision-making right would enable a shareholder to require the entity to redeem (or pay a return on) its shares in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) (paragraph AG28A(a)–(d)).**

(c) **to provide guidance on applying those factors (paragraph AG28B).**

Paragraphs BC116–BC125 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Our members agree with the proposals and the non-exhaustive list of indicators which helps addressing the current diversity in practice. We also note that this is an area which should remain principles based as our members need to make their own judgments based on the legal and regulatory requirements they are subject to.

Question 6—Reclassification of financial liabilities and equity instruments (paragraphs 32B–32D and AG35A of IAS 32)

The IASB proposes:

(a) to add a general requirement that prohibits the reclassification of a financial instrument after initial recognition unless paragraph 16E of IAS 32 applies or the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement (paragraphs 32B–32C).

(b) to specify that if the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement, an entity would:

(i) reclassify the instrument prospectively from the date when that change in circumstances occurred.

(ii) measure a financial liability reclassified from equity at the fair value of that financial liability at the date of reclassification. Any difference between the carrying amount of the equity instrument and the fair value of the financial liability at the date of reclassification would be recognised in equity.

(iii) measure an equity instrument reclassified from a financial liability at the carrying amount of the financial liability at the date of reclassification. No gain or loss would be recognised on reclassification (paragraph 32D).

(c) provide examples of changes in circumstances external to the contractual arrangement requiring reclassification (paragraph AG35A).

Paragraphs BC126–BC164 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Would the proposal to reclassify the instrument prospectively from the date when a change in circumstances occurred give rise to any practical difficulties? If so, please describe those practical difficulties and the circumstances in which they would arise.

Our members welcome the proposals as currently IAS 32 does not provide specific guidance on reclassification between equity instruments and financial liabilities. Our members note that there is diversity in practice and that accounting policy choices have been made to deal with this issue. As a result, the Board should consider the implication of existing diversity in practice most notably consider leaving this issue open to accounting policy choice.

Concerns raised by some of our members stem from the fact the proposed requirements state that reclassification should only occur because of a change in circumstances external to the contractual arrangement. This is inconsistent with some of the existing practice. For example, when an instrument is subject to a tender offer, buyback, or a call (redemption event) which is integral to the terms of the instrument or part of a programme, the issuer no longer has the ability to avoid the delivery of cash or another financial asset once that term is enforceable. Hence, the instrument no longer meets the definition of equity. Some of our members treat this as a trigger for the reclassification from equity to financial liability between the closing of the underlying event and the settlement date. If the instrument is denominated in a foreign currency, reclassification also deals with the recognition of the FX gains or losses in profit or loss post reclassification as the new instrument meets the definition of a monetary item under IAS 21.

This potential change to existing practice may generate complexity as entities will need to restate prior periods and may create P&L volatility in the future for foreign currency denominated issuances once the call option is exercised. It also generates a potential inconsistency with the basic principle in IAS 32 whereby changes to an instrument which affect the residual interest element should require a derecognition/re-recognition event.

Question 7—Disclosure (paragraphs 1, 3, 12E, 17A, 20, 30A–30J and B5A–B5L of IFRS 7)

The IASB proposes:

> **(a) to expand the objective of IFRS 7 to enable users of financial statements to understand how an entity is financed and what its ownership structure is, including potential dilution to the ownership structure from financial instruments issued at the reporting date (paragraph 1).**
>
> **(b) to delete the reference to derivatives that meet the definition of an equity instrument in IAS 32 from paragraph 3(a) of IFRS 7.**
>
> **(c) to move paragraphs 80A and 136A from IAS 1 to IFRS 7. These paragraphs set out requirements for disclosures relating to financial instruments classified**

as equity in accordance with paragraphs 16A–16B and/or paragraphs 16C–16D of IAS 32 (paragraphs 12E and 30I). The IASB also proposes to expand paragraph 80A to cover reclassifications if there are changes in the substance of the contractual arrangement from a change in circumstances external to the contractual arrangement.

(d) to amend paragraph 20(a)(i) of IFRS 7 to require an entity to disclose gains or losses on financial liabilities containing contractual obligations to pay amounts based on the entity's performance or changes in its net assets, separately from gains or losses on other financial liabilities in each reporting period.

(e) to include disclosure requirements for compound financial instruments in IFRS 7 (paragraph 17A).

The IASB proposes to require an entity to disclose information about:

(a) the nature and priority of claims against the entity on liquidation arising from financial liabilities and equity instruments (paragraphs 30A–30B).

(b) the terms and conditions of financial instruments with both financial liability and equity characteristics (paragraphs 30C–30E and B5B–B5H).

(c) terms and conditions that become, or stop being, effective with the passage of time (paragraph 30F).

(d) the potential dilution of ordinary shares (paragraphs 30G–30H and B5I–B5L); and

(e) instruments that include obligations to purchase the entity's own equity instruments (paragraph 30J).

Paragraphs BC170–BC245 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with the proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Our members acknowledge the efforts of the IASB in bringing transparent disclosure to provide the users with useful information on this topic. Given the bespoke nature of some of the contracts in the scope of the proposed amendments, adequate disclosure will be vital to enable users to understand their effects on the capital structure of the entities subject to their analysis.

Nevertheless, some of our members expressed concerns in relation to potential disclosure overload and potential imbalance between user benefit and compliance cost. They also noted that there is a noticeable level of overlap between the Pillar 3 disclosures and the disclosures in the ED. This creates two sets of disclosures serving different purposes albeit having a common goal. We therefore recommend that the staff conducts further outreach and a comprehensive cost benefit analysis before finalising the ED.

Question 8—Presentation of amounts attributable to ordinary shareholders (paragraphs 54, 81B and 107–108 of IAS 1)

The IASB proposes to amend IAS 1 to require an entity to provide additional information about amounts attributable to ordinary shareholders. The proposed amendments are that:

> **(a) the statement of financial position shows issued share capital and reserves attributable to ordinary shareholders of the parent separately from issued share capital and reserves attributable to other owners of the parent (paragraph 54).**
>
> **(b) the statement of comprehensive income shows an allocation of profit or loss and other comprehensive income attributable to owners of the parent between ordinary shareholders and other owners of the parent (paragraph 81B).**
>
> **(c) the components of equity reconciled in the statement of changes in equity include each class of ordinary share capital and each class of other contributed equity (paragraph 108); and**
>
> **(d) dividend amounts relating to ordinary shareholders are presented separately from amounts relating to other owners of the entity (paragraph 107).**

Paragraphs BC246–BC256 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Would the proposed requirement to allocate issued share capital and reserves between ordinary shareholders and other owners of the parent give rise to any practical difficulties in determining the required amounts? If so, please describe the possible difficulties and specify areas in which further guidance would be helpful.

Similarly, to question 7 above, our members acknowledge the efforts of the IASB in bringing transparency to the presentation of financial liabilities and equity instruments. This should be considered in conjunction with the disclosure requirements commented in the previous question.

Question 9—Transition (paragraphs 97U–97Z of IAS 32)

The IASB proposes to require an entity to apply the proposed amendments retrospectively with the restatement of comparative information (a fully retrospective approach). However, to minimise costs, the IASB proposes not to require the restatement of information for more than one comparative period, even if the entity chooses or is required to present more than one comparative period in its financial statements.

For an entity already applying IFRS Accounting Standards, the IASB proposes:

> **(a) to require the entity to treat the fair value at the transition date as the amortised cost of the financial liability at that date if it is impracticable (as defined in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors) for the entity to apply the effective interest method in IFRS 9 Financial Instruments retrospectively (paragraph 97X);**
>
> **(b) not to require the entity to separate the liability and equity components if the liability component of a compound financial instrument with a contingent settlement provision was no longer outstanding at the date of initial application (paragraph 97W).**
>
> **(c) to require the entity to disclose, in the reporting period that includes the date of initial application of the amendments, the nature and amount of any changes in classification resulting from initial application of the amendments (paragraph 97Z).**
>
> **(d) to provide transition relief from the quantitative disclosures in paragraph 28(f) of IAS 8 (paragraph 97Y); and**
>
> **(e) no specific transition requirements in relation to IAS 34 Interim Financial Reporting for interim financial statements issued within the annual period in which the entity first applies the amendments.**

For first-time adopters, the IASB proposes to provide no additional transition requirements.

Paragraphs BC262–BC270 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Would the proposal to apply the proposed amendments retrospectively give rise to any other cases in which hindsight would be necessary? If so, please describe those cases and the circumstances in which the need for hindsight would arise.

Our members acknowledge the conceptual merits of a fully retrospective application most notably the cross-period comparability benefit for users of the financial statements however, they raised concerns in relation to the complexity and potential disruption that such an exercise would involve (we note specific concerns in the questions above). The most notable challenges are as follows:

- Availability of historical information to adjust the historical financial statements (particularly when there are changes to classification).
- Reporting of AT1s as compound financial instruments in case they were historically classified as financial liabilities in their entirety, with potential consequential discontinuation of hedging relationships which may lead to the reporting of hedging derivatives as trading positions. This is an artificial outcome particularly when updating prior periods and is inconsistent with the intent and risk management activities.
- Adjustments to historical business combinations including goodwill and non-controlling interest puts.

In addition, our members noted that is currently unclear whether the proposed transition requirements apply to interim financial reporting under IAS 34. If this is the case this will add an additional layer of complexity to an already potentially complex exercise.

Our members therefore recommend that the staff develops transition reliefs to support preparers in the transition process. These should focus on:

- Practicability of collecting historical information;
- Hedge Accounting including grandfathering AT1s designated in hedge accounting relationships;
- Instruments that matured but would have otherwise been subject to reclassification if outstanding with consequential effects on the balance sheet and statement of comprehensive income;
- Compound financial instruments vs financial liabilities;
- Interim financial reporting.

Question 10—Disclosure requirements for eligible subsidiaries (paragraphs 54, 61A–61E and 124 of [IFRS XX])

The IASB proposes amendments to the draft Accounting Standard [IFRS XX Subsidiaries without Public Accountability: Disclosures], which will be issued before the proposals in the Exposure Draft are finalised.

[IFRS XX] will permit eligible subsidiaries to apply the recognition, measurement, and presentation requirements in IFRS Accounting Standards with reduced disclosures.

The IASB's proposals select appropriate disclosure requirements from those proposed for IFRS 7, based on the IASB's agreed principles for reducing disclosures.

Paragraphs BC257–BC261 explain the IASB's rationale for the selected disclosures.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why, taking into consideration the reduced disclosure principles described in BC258.

These proposals are likely to have a negligible effect on our members therefore we have no comments.